

## DENIALS PILOT – AN OVERALL ASSESSMENT

The denials QC pilot tested three case sampling approaches in a total of five states. From inception to analysis, the pilot required approximately two years to complete. The definition of denials was intentionally restricted to provide greater conceptual clarity and ease of implementation vis-a-vis the available resources. By concentrating on official denials that resulted from a formal determination, the pilot study was able to work within the parameters already known to the SESAs. Considerable effort was given to adapting existing regular benefit QC investigative procedures rather than imposing significant changes. Although the pilot tested three design options, in many respects it also represented an initiative to better understand the prevalence of denial errors and the capacity of the existing state UI appeal and redetermination processes to correct these errors.

The results of the pilot indicate that the states can conduct denial QC investigations subject to capacity to develop the appropriate samples using computer tools. Using the investigative frameworks employed in the pilot study, denials QC investigations can be conducted at a cost that is well within that now expended for core QC investigations. Denials QC investigations reveal substantial error rates. The results of the pilot also indicate that approximately 50 percent of all erroneous denials are appealed or subjected to administrative redetermination and that approximately 70 percent of those cases are subsequently found in favor of the claimant. These self-correcting phenomena suggest that from an administrative standpoint erroneous formal denials may not be a serious error statistic problem. However, successful appeals delay benefit payments and impose added costs to the SESAs, both of which would be of lesser cost impact if the initial denial error rate were lower. Finally, the findings of the pilot do not address the unknown number of potential claimants who decide not to file a claim when in fact, they may be eligible for benefits.

Pilot study finding regarding the relative merits of the design options is less than definitive. Because the design is imbalanced – assignment of one state to Option 1 and one state to Option 2, and three state to Option 3 – it is difficult to compare error rates, costs, and error sources across options.

This difficulty stems from the Impossibility of disentangling the effect of unique state characteristics from the effects of the option's denial selection process. Even Option 3, with three states, exhibits highly variable denial error rates when consistency would have supported the consideration of the three state as a single group. Thus, it becomes necessary to evaluate the relative potential of each of the denial options based primarily on feasibility, ease of Implementation, and capacity to address key Issues that characterize the denied claimant.

As a candidate for option redesign, Option 1 poses few operational difficulties and is conceptually easy to understand. It draws on resources available to all SESAs. Its only real limitation is that once the sample is drawn, the investigation is almost a historical; because Option 1 views each denial determination in relative isolation from the normal sequence that a claimant would have to go through in reconstructing the source and accuracy of the denial. Option 1 produces a “snapshot” of the denial determination that may be accurate only for the determination under consideration. Such a design does not permit an analysis that dynamically captures all of the system problems simultaneously, either in terms of denial eligibility error or the more subtle “quality error. However the Option 1 design produces samples in each denial determination category that are routinely identified and investigated. Error rates are easily calculated. Operational simplicity makes Option 1 a viable option for redesign.

A review of the time spent in completing Option 2 approval determinations investigations coupled with the amount, source, and responsibility of the errors that were revealed produces no compelling reason to

continue examining denial determinations using this sampling design, particularly in so far as they include the same potential population as core QC. Any claimant. population already covered in core QC investigations should be explicitly excluded from any denial design. Core QC adequately addresses this sub-population of Option 2 approval cases.

The Option 3 design replicates the three denial categories of Options 1 and 2, but also provides the analyst with a dynamic retrospective (and in some cases, prospective) of a claimant's encounter with the UI system. It is possible to generate such statistics as exhaustion, spells of unemployment entrances and exits from the labor force, and denial claimants who eventually receive benefits, that are difficult to obtain otherwise. The operational problems are significant, however--beginning, but not ending with the so-called "multiple hits." If Option 3 or some modification of it is to be used in redesign, these operational problems must be confronted. Additional SESA input on this issue is very welcome and necessary. Thus, Options 1 and 3 are the best candidates for further redesign and pilot testing.

Finally, the econometric modeling of underpayments attributable to erroneous denial determinations generally compensated for the lack of empirical data needed for estimation of the dollar value of error rates. While it was not possible to produce reliable estimates of the benefit year value of underpayments, cross-sectional estimates suggest that erroneous denials constitute a significant potential source of underpayments. The model has potential, especially if it is enhanced to include empirical distributions for reported wages, allows monetarily denied claimants to reenter and implements a more complicated error structure for nonmonetary, nonseparation disqualifications.

**Study Title:** Pilot Test of Conducting UI Quality Control Investigations of Denied Claims

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**Results:**

This exploratory, five-State pilot test was designed to: (1) measure the rates of erroneously denied claims before and after claimant-initiated appeals or redeterminations; (2) explore the definitional and operational barriers to conducting QC investigations of denials; (3) assess the relative merits of 3 different approaches to integrating QC investigations of denied and paid claims; (4) assess the costs of denials investigations relative to payments; and (5) make preliminary estimates of the dollar consequences of erroneously denied claims.

- (1) Error Rates. The percentage of claims erroneously initially denied for monetary reasons (ruled monetarily ineligible.) averaged 23% in the 5 States (range: 10-36%). Between 0 and 70% were reversed upon redetermination, leaving an average of 16% still in error. For separation denials, 1576 were initially denied in error; after appeals, 9% were still wrongly denied. 14% of nonmon-nonsep denials were initially erroneous; the appeals process cut\* this to 11%. The above percentages show errors relative to denials; because denials are a small fraction of claims in all States, erroneous denials are a very small fraction of all decisions, averaging 2.5% of monetary determinations, 0.7% of separations, and about 0.1% of weeks claimed.
- (2) Barriers. The main operational barrier was contacting all denied claimants: except for one State in which less than 5% of claimants rejected interviews, refusals averaged about 20%. Conceptual difficulties were defining a denial and setting an appropriate delay to ensure that normal redetermination mechanisms could work; and defining the scope of the investigation (often one type of denial occurs in a case with other disqualifying factors).
- (3) Which Approach? The pilot tried 3 different ways of combining QC investigation of paid and denied claims. State A kept its payments program intact and drew separate, cross-sectional samples of monetary, separation, and nonmon-nonsep denials. In 8, 6 separate cross-sectional samples (positive and negative (denial) monetary, sep', and nonmon-nonsep decisions) were selected and investigated. In C, O, and E a primary sample of initial claimants was selected and tracked; and all denials, plus a sample of payments, were selected as they occurred. All approaches proved workable; the consensus seemed to be that the one used in State A was most manageable. The last approach had the drawbacks of more complexity (operating a tracking file to follow claimants through a benefit year), lack of control over the weekly sample of denials, and the need to investigate some claimants more than once (multiple hits) if they had multiple denials.
- (4) Cost of Denials Investigations. In 4 States, denials investigations took less than 60% of QC payments times on average. In State O, they averaged nearly 90%--apparently the price for its outstandingly low noncontact rates of 5%.
- (5) Dollar Impact. Because the work and claim experience of claimants after denial could not be tracked, the pilot could not measure dollar impacts. A statistical model, using average figures

consistent with pilot State experience but based on denial rates was used to model impacts. It suggested that \$ impacts before appeals or redeterminations might be nearly as high as benefit overpayments, and indicated that in decreasing order of...\$ impact came monetaries, then seps, then nonmon-nonsep. The subcontractor who did the simulations noted the model needs many refinements before it could be-operational.

On balance, the pilot indicated that there is a substantial problem with erroneous denials, and offered many insights into designing a QC program to identify them. The Department plans to add Denials to Benefits QC as soon as resources permit.

Method:

The pilot, being exploratory, pursued no explicit hypotheses. The basic approach followed that of Benefit payment QC as closely as possible. Denials investigated were what could be called "formal denials": those involving explicit denial of a formal initial or continue` claim. No attempt was made to assess the .importance of informal denials (claimants turned away by the agency before .they filed an actual claim) or self-denials (those deciding not even to contact a SESA). For the analysis of denial findings, methods were limited to computing means and assembling tables of sample findings; there was no need to test for statistically different finding amont States. Statistical and mathematical modelling was used in the attempts to impute dollar impacts to various denials.

Availability:

A summa ry of the report may be obtained from Burman Skra ble or Charles Atkinson, 200 Constitution Avenue, *N.W.* , *Room S-4015*, Washington, DC 20210. Phone (202) 535-0220.

## Appendix III

### UI Benefit Denials: What They Are and Where They Occur

The major dimensions of the notion of denial of eligibility for UI benefits are as follows. Some potential claimants conclude that they are not likely to be eligible and never contact the UI agency. These could be called "*self denials*." Some claimants make an inquiry, usually about monetary eligibility; and being informed that they are not eligible or not likely to be eligible, they never file a formal initial claim (IC). These are often termed "*informal*" or "*counter*" denials. Once a formal IC is filed, UI eligibility is tested, more or less sequentially, at three levels, and there is a potential for a formal *denial* at each. Table 1 gives the basic counts for CY 1994, derived from UI required reports numbers ETA 5159 (Claims and Payments), ETA 218 (Monetary Determinations) and ETA 207 (Nonmonetary Determinations). In logical order these are:

1. *Monetary eligibility.* Claimants must have earned enough wages, or worked enough weeks, or both, during a "base period" which is usually the first four of the past five completed calendar quarters before the IC was filed. If the State's monetary conditions are not satisfied, the "denial" remains in effect until enough additional wages to qualify are earned (or if actually earned already but not in the State's records, identified).

- ! In 1994, about 11.5 million monetary determinations were made, 10.4 million (or 90 %) on new initial claims (ICs). The remainder were done on Transitional ICs—claims filed by claimants who remained unemployed when their original Benefit Years expired and who attempt to establish a new Benefit Year on the basis of Lag Quarter earnings. In 1.2 million, or 10 %, of the monetary determinations, the claimants were determined monetarily ineligible.

2. *Separation.* To be eligible, a claimant must have been separated from work involuntarily (involuntarily includes certain quits for "good cause"). Depending on the State and reason, separation denials can make one ineligible for periods ranging from several weeks to indefinitely, with some requiring reemployment and earning of "requalifying wages."

- ! In 1994, the UI system made about 15 million separation determinations. Nearly 60 percent were made on monetarily eligible initial claimants; the rest were made on Additional ICs, claims filed by claimants who had returned to work before exhausting benefit eligibility and then became unemployed again within the same benefit year. The system raised and adjudicated issues on 3.2 million (21 % of all) separations; 56% of adjudications resulted in denials. One in eight separation decisions was a denial.

Table 1

Intrastate Claims, Eligibles and Ineligibles  
U.S. Totals (in thousands), CY 1994

Monetaries	
New Initial Claims	10, 964
Transitional Initials	575
Total Monetaries	11,539
(Eligible	10,360)
( <i>Ineligible</i>	<i>1,179)</i>
Nonmonetary-Separations	
From New Initial Claims	8, 883
From Transitional ICs	180
Total Determinations	15,063
OK--No Issue	11, 876
Issue/Adjudicated	3,187
(Adj.--Approved	1,413)
( <i>Adj.--Denied</i>	<i>1,774)</i>
Nonmonetary-Nonseparations	
Total Weekly Elig. Determin.	120,510
Week Paid--No Issue	119,150
Issue/Adjudicated	359
(Adj.--Approved	1, 33)
( <i>Adj.-Denied</i>	<i>2, 026)</i>

Data Sources: New, Transitional, and Additional ICs, ETA 5159; Monetary Determinations and Ineligibles, ETA 218; Nonmonetary Issues, adjudications, and Denials, ETA 207. Proportions of monetaries due to transitional ICs, and separations due to New ICs and Transitional ICs, estimated.

3. *Nonmon-Nonseparation.* A claimant who is monetarily eligible and who separated from work for acceptable reasons must be eligible for employment each week (usually able, available, and actively looking) to receive a benefit. A nonmon-nonsep denial usually involves loss of eligibility for the claimed week, although refusing suitable work can entail a multi-week denial.

! In 1994, the system made about 122.5 million determinations of weekly eligibility on intrastate claims. Of these, it identified and formally adjudicated about 3.4 million issues (2.7 percent); the adjudications resulted in 2.0 million denials. Denials were about 1.7 percent of all determinations.

## Appendix III

### Measuring the Accuracy of Denials in UI

Because they remain almost totally beyond the UI system's reach, the Department has regarded the extent and correctness of self and informal denials as a matter for research, not operational measurement. Although as noted in the introduction the Department recognizes the importance and feasibility of measuring the accuracy of formally denied claims, at present, the UI system does not assess it. The quality of most nonmonetary determinations, including denials, is regularly assessed but no monetary denials are measured in any form. At present, the UI system has two assessment mechanisms which could be used to measure the correctness of all or some denied claims.

1. The Quality Performance Indicator Assessment of Nonmonetary Determinations Since the 1970s the UI system has assessed the "quality" of nonmonetary adjudications by reviewing a sample of adjudications using the Quality Performance Indicator (QPI), a part of the Quality Appraisal. About half of the reviewed determinations would be positive and half negative (denials). The QPI review basically assesses how well the nonmon process was followed; it was not designed to determine whether or not the adjudication reached the fully correct decision given State law and policy, nor are the results tabulated to determine the share that was accurate. The QA/QPI review is limited to determining whether the State took proper steps to obtain information, offered rebuttal, correctly identified an issue and correctly applied appropriate law. Incorrect information, or missing information due to late or no response from one party, is not factored in. At present, only the four main categories of nonmonetary adjudications (representing about two thirds of all nonmon adjudications) are in the universe reviewed. The Performance Measurement Review (PMR) project has modified the QA/QPI procedures somewhat, including changing the sampling frames to include all adjudications.

2. Benefits Quality Control. The Benefits Quality Control (BQC) program, implemented under regulation in October 1987, does not measure denials. Because it samples only payments (specifically, weeks paid), it accurately estimates numbers of overpayments and dollars overpaid, but underestimates underpayments. By thoroughly reviewing and field-verifying all information pertinent to the correctness of payment decisions, BQC not only determines whether information obtained by UI staff was used properly, but also whether they had the necessary and correct information to work with. It can thus assess whether or not decisions were made in accordance with law and policy and with full information. This includes determinations made at the monetary and nonmonetary (separation and non-separation) levels. In the case of nonmons, the BQC review ascertains whether all issues were correctly identified by UI staff and whether those identified were handled correctly. It also ensures that all appropriate information is marshalled for the adjudications--and thus would often obtain information not received by the agency or not submitted timely.

The BQC methodology involves drawing samples of paid claims. The actual decision to pay is the last in a series of three conceptually sequential decisions. Reviewing the correctness of the payment requires BQC to verify all prior decisions on which the decision to pay the particular week claimed depends, and so BQC investigates "up the chain" of UI decisions. In effect, then, it reviewed in 1994 through its samples not only the universe of 120.4 million weeks paid but also the 10.4 million monetaries and 13.3 million separation decisions which had to be positive for those weeks paid to be correct. In 1994, these amounted to approximately 97 % of all decisions made in intrastate UI, UCFE, and UCX cases.

As noted, several interest groups stressed the need to have balance in BQC by using its methodology to

assess the accuracy of denied as well as paid claims. This led to the pilot testing of this methodology in a project initiated soon after payments or "Core" QC became operational.